

Wisconsin Health and Educational Facilities Authority

(LFB Budget Summary Document: Page 648)

No Issue Papers Have Been Prepared

WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Definition of Health Facility

Motion:

Move to specify that all facilities that receive WHEFA funds must be tax-exempt institutions.

Note:

Under current law, for the purposes of WHEFA funding, child care providers are defined as agencies that are exempt under 501(c)(3) of the federal internal revenue code. However, educational and health facilities are not defined as entities that are tax exempt under 501(3)(c) of the code. This motion would require that all facilities that receive funds from WHEFA be tax-exempt institutions, as defined under the federal internal revenue code.

MO# 1518

2 BURKE	<input checked="" type="radio"/>	N	A
DECKER	<input checked="" type="radio"/>	N	A
GEORGE	<input checked="" type="radio"/>	N	A
JAUCH	<input checked="" type="radio"/>	N	A
/ WINEKE	<input checked="" type="radio"/>	N	A
SHIBILSKI	<input checked="" type="radio"/>	N	A
COWLES	<input checked="" type="radio"/>	N	A
PANZER	<input checked="" type="radio"/>	N	A
JENSEN	<input checked="" type="radio"/>	N	A
OURADA	<input checked="" type="radio"/>	N	A
HARSDORF	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
LINTON	<input checked="" type="radio"/>	N	A
COGGS	<input checked="" type="radio"/>	N	A

AYE 16 NO 0 ABS

WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Conflict of Interest

Motion:

Move to prohibit any member, officer, agent or employee of the Wisconsin Health and Educational Facilities Authority (WHEFA) from receiving direct or indirect compensation from a participating educational institution, health facilities or child care provider.

Note:

This motion would delete s. 231.02 (6)(b) of statutes, which permits trustees, directors, officers and employees of participating health facilities, participating educational institutions and participating child care providers to serve as a member of the authority, if the individual abstains from discussion, deliberation, action and vote by the authority on issues which relate to the institutions in which they have an interest.

Instead, this motion would create statutory provisions to prohibit an member, officer, agent or employee of WHEFA from receiving direct or indirect compensation from a participating education institution, health institution or child care provider.

MO# 1037

2BURKE	<input checked="" type="radio"/>	N	A
DECKER	<input checked="" type="radio"/>	N	A
GEORGE	<input checked="" type="radio"/>	N	A
JAUCH	<input checked="" type="radio"/>	N	A
/WINEKE	<input checked="" type="radio"/>	N	A
SHIBILSKI	<input checked="" type="radio"/>	N	A
COWLES	<input checked="" type="radio"/>	N	A
PANZER	<input checked="" type="radio"/>	<input checked="" type="radio"/> N	A
JENSEN	<input checked="" type="radio"/>	N	A
OURADA	<input checked="" type="radio"/>	<input checked="" type="radio"/> N	A
HARSDORF	<input checked="" type="radio"/>	<input checked="" type="radio"/> N	A
ALBERS	<input checked="" type="radio"/>	<input checked="" type="radio"/> N	A
GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
LINTON	<input checked="" type="radio"/>	N	A
COGGS	<input checked="" type="radio"/>	N	A

Motion #1037

AYE 12 NO 4 ABS 0

WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

LFB Summary Items for Introduction as Separate Legislation

<u>Item #</u>	<u>Title</u>
1	Definition of a Health Facility
2	Bond Counsel Services

Wisconsin Housing and Economic Development Authority

(LFB Budget Summary Document: Page 649)

LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
2	Safe Drinking Water Loan Guarantee Program (Paper #940)
5,7	Small Business Loan Guarantee Program (Paper #941)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Safe Drinking Water Loan Guarantee Program (WHEDA and Clean Water Fund)

[LFB Summary: Page 652, #2 and Page 113, #9]

CURRENT LAW

WHEDA administers several loan guarantee programs related to business development and environmental contamination remediation and pollution abatement. WHEDA is typically authorized to guarantee up to 90% of the principal value of the loans.

GOVERNOR

Create a safe drinking water loan guarantee program to guarantee up to 80% of the principal of loans for projects that improve the quality of drinking water in water systems not owned by the local units of government.

WHEDA would be allowed to guarantee collection of a percentage, not exceeding 80%, of the principal of an eligible loan. The Authority could establish a single percentage for all loans guaranteed or establish different percentages for individual loans. The total outstanding principal amount for all guaranteed safe drinking water loans would not be allowed to exceed \$3.0 million, unless the Joint Committee on Finance, under s. 13.10, permits the Authority to increase or decrease the total outstanding guaranteed principal amount. A request for additional authority would have to include a projection that compares the next June 30 balance, less the amount necessary to fund guarantees under the program and to pay outstanding claims, with the same balance if the request is approved.

Require WHEDA to enter into a guarantee agreement with lenders wishing to participate in the program. Consistent with the terms of the program, WHEDA would be allowed to determine the form of the agreement, any conditions upon which the authority may refuse to enter into a guarantee agreement and the procedures required to carry out the agreement, including default procedures and the guarantee percentage for each loan. Further, allow WHEDA to establish a review panel, consisting of experts in the finance and drinking water systems area to provide advice about lending requirements and issues related to the loan guarantee program.

Direct the Department of Natural Resources (DNR) to: (a) in consultation with the Department of Administration (DOA) to promulgate rules, consistent with the federal Safe Drinking Water Act, for determining whether a loan is eligible for a guarantee; (b) determine which loans would be eligible for a guarantee; and (c) with the approval of DOA, to transfer funds from the SEG and FED safe drinking water loan program appropriations for financial assistance to the WHEDA drinking water reserve fund.

WHEDA could only use the Wisconsin drinking water reserve fund to guarantee safe drinking water loans. WHEDA could guarantee a loan under the program if all the following apply:

- a. The borrower is not a local unit of government;
- b. The borrower is either: (a) an owner of a "community water system" (a public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year round residents); or (b) is the owner of a public not for profit water system that is not a community water system (for example, a private school).
- c. The loan, as determined by DNR, would:
 - (1) facilitate compliance with national primary drinking water regulations; or
 - (2) otherwise significantly further the health protection objectives of the federal Safe Drinking Water Act.
- d. The lender of the loan enters into a guarantee agreement with WHEDA.

Require WHEDA to submit an annual report on the number and total dollar amount of loans guaranteed under the program and the default rate on the loans.

Specify that all loans guaranteed under this program would be backed by the moral obligation of the Legislature to appropriate any funds necessary to meet the obligations created.

DISCUSSION POINTS

Background

1. The bill would create a safe drinking water loan program, administered by DNR and DOA, as well as a safe drinking water loan guarantee program administered by WHEDA and DNR. The safe drinking water loan program would provide subsidized loans to local governments to plan, design, construct and modify public water systems, if the projects comply with national primary drinking water regulations.

2. Non-governmental public water systems would be ineligible for direct loans to plan, design, construct and modify their system. These entities would be ineligible because the federal grant that primarily funds the program is blended with state issued general obligation bonds. While proceeds from Wisconsin general obligation bonds can be used to fund capital improvements, the proceeds cannot be provided for non-governmental capital improvements, unless the improvements accrue benefits to the state. For example, bond proceeds cannot be used to replace a water system, but could be used install improvements that would protect groundwater (or any waters of the state) from contamination. Consequently, the bill would allow direct loans to the owner (whether or not a local government) of a community water system or a nonprofit community water system for various water source protection activities (such as easement purchases, education, water source assessments and wellhead area protection).

3. The bill would create a loan guarantee program to assist private parties in meeting state and federal drinking water requirements. Technical modifications would be required to provide the proper cross reference for WHEDA's loan guarantee activities.

Funding

4. Eligible loans would be guaranteed by funds deposited to the Wisconsin drinking water reserve fund created under the bill. The reserve fund would consist of deposits from the safe drinking water loan program, funds received for the program by any other source and the interest income from the fund.

5. DNR, with the approval of DOA, would be provided the authority to transfer funds from the safe drinking water loan program. No estimate of the fund transfer is included in the bill. WHEDA would be required to regularly monitor the fund balance to ensure a balance of at least one dollar for every four dollars in total outstanding guaranteed principal authorized under the program.

6. The bill requires a 4 to 1 reserve ratio to be maintained in the Wisconsin drinking water reserve fund (one dollar in reserves for every \$4 in outstanding guarantees). Other provisions in the bill would increase the reserve ratio for most of WHEDA's loan guarantee

programs backed by the Wisconsin Development Reserve Fund (WDRF) to 4.5 to 1. The reserve ratio for the Wisconsin drinking water reserve fund could be made consistent with the WDRF ratio.

7. WHEDA indicates that the legal and other administrative costs associated with establishing a safe drinking water loan guarantee program would be approximately \$100,000 in the biennium. The estimate is based on the start-up costs associated with WHEDA's other loan guarantee programs. However, the bill would only allow the transfer of funds to maintain the guarantee reserve ratio (up to \$750,000 based on \$3.0 million in guarantee authority under the bill), but not to assist with WHEDA's initial administrative costs. Under its other guarantee programs, WHEDA covers much of its administrative costs associated with issuing loan guarantees from the balance in the WDRF. The WDRF is funded from the direct appropriation of funds, origination or other fees associated with making loans, as well as the interest earnings on the fund balance.

8. To cover WHEDA's costs associated with establishing the guarantee program, the Committee could clarify that DNR has the authority, under its federal general administration appropriation, to contract with WHEDA to administer the loan guarantee program. Federal safe drinking water revenues should be sufficient to cover WHEDA's administrative costs.

Loan Guarantees

9. WHEDA's primary mission is to provide financing for: (a) affordable housing for low- and moderate-income people; and (b) business development. As a result, WHEDA's expertise related to providing financing to entities to meet environmental concerns is limited. Further, WHEDA officials indicate that programs aimed at specific environmental concerns and that require specialized technical expertise are difficult to market to lenders in that WHEDA has to educate the state's financial community about the availability and requirements of the programs. Therefore, other than the expired recycling loan guarantee program, many of WHEDA's environmental guarantee programs have gone unused (such as the clean air act and the agrichemical cleanup loan guarantee programs).

10. WHEDA also indicates that their direct loan programs and most of the loan guarantee program's activity generally involve private business and housing development activities rather than the more public infrastructure improvement projects that could be guaranteed under the proposed safe drinking water loan guarantee program.

11. The bill would provide DNR three positions to administer the direct loan and some of the loan guarantee program activities. The DNR staff would assist WHEDA with much of the engineering and technical aspects of the guarantee program and assist in determining the potential costs of particular projects. The bill would require DNR to promulgate rules on what projects and costs would be eligible under the program. DNR indicates that those projects eligible for

loan guarantees would go through the same application and processing procedures as projects for the direct loan program. In addition, DNR and DOA would have to determine the size of an eligible loan because the agencies would need to know how much funding to transfer to the Wisconsin drinking water reserve fund to back each loan. DOA indicates that WHEDA's primary role under the program would be to determine the borrowers ability to repay the loan. Therefore, unlike WHEDA's current environmental programs, WHEDA would not have to rely heavily on its own staff for environmental expertise.

12. Eligible borrowers for the safe drinking water loan guarantee program would be either: (a) an owner of a "community water system" (a public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year-round residents); or (b) the owner of a public not for profit water system that is not a community water system. Examples of entities eligible for loan guarantees would include private facilities that own the water system serving the sites, such as certain private schools, mobile or manufactured home parks and apartment buildings.

13. WHEDA has concerns about the ability of the non-governmental entities that would be eligible under the guarantee program to repay the loans. That is, nonprofit, or private owners of public water systems, unlike local governments cannot spread the costs over a large number of residents. As a result, the debt service costs per resident using the water system could be substantial. Further, most of WHEDA's loan and guarantee programs involve private business and housing development activities that are expected to generate additional revenues to repay the loan rather than public infrastructure improvement projects which do not necessarily generate additional revenues. Therefore, WHEDA is uncertain how many guarantees could be made under the proposed program and the viability of any loans that would be guaranteed.

14. DOA officials indicate that the bill would allow WHEDA the option to determine what the guarantee amount would be on each loan, therefore, WHEDA's risks could be reduced in that its exposure could be less than 80% on loans made.

15. As with the loan guarantees backed by the WDRF, all loans guaranteed by the Wisconsin drinking water reserve fund would be backed by the moral obligation of the Legislature to appropriate any funds necessary to meet the obligations created.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation, as technically modified, to create a safe drinking water loan guarantee program in WHEDA.

2. Approve the Governor's recommendation, as technically modified, and provide DNR the authority and \$100,000 FED in 1997-98 to contract with WHEDA to establish and administer a safe drinking water loan guarantee program.

<u>Alternative 2</u>	<u>FED</u>
1997-99 FUNDING (Change to Bill)	\$100,000

3. In addition to alternative 1 or 2, require WHEDA to maintain the same reserve ratio in the Wisconsin drinking water reserve fund as for the WDRF.
4. Maintain current law (no guarantee program would be established).

Prepared by: Al Runde

MO# Alts. 2 and 3

2	BURKE	Y	N	A
1	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 16 NO 0 ABS 0

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Small Business Loan Guarantee Program (WHEDA)

[LFB Summary: Page 652, #5 and Page 655, #7]

CURRENT LAW

WHEDA administers several loan guarantee programs related to business development, environmental contamination remediation and pollution abatement. The loan guarantee programs are backed by the Wisconsin Development Reserve Fund (WDRF), which must contain one dollar in its cash balance for every four dollars in total outstanding guarantees.

GOVERNOR

Reduce the required cash balance in the WDRF by increasing the reserve ratio to require one dollar in the cash balance for every \$4.50 in total outstanding guarantees (rather than \$4 currently) for all guarantee programs backed by the fund, except the loan to Taliesin, would remain at a 4 to 1 ratio.

Repeal several existing loan guarantee programs backed by the WDRF and consolidate much of the loan guarantee authority for those repealed programs under a single new loan guarantee program called the small business development loan guarantee program, with guarantee authority of \$28,750,000. Repeal the specific authority for WHEDA to guarantee loans for contracts, tourism, agrichemical cleanup loans, targeted development, nonpoint source pollution abatement, clean air and stratospheric ozone protection.

Allow WHEDA to guarantee repayment of a portion of the principal of any loan eligible for guarantee not to exceed 80% or \$200,000, whichever is less. Require WHEDA to establish

the portion of the principal of an eligible loan to be guaranteed in an agreement with the participating lender. The Authority would be allowed to establish a single guarantee rate for all guaranteed loans that do not exceed \$250,000 and a separate guarantee rate for loans that exceed \$250,000 or, WHEDA could establish on an individual basis a different guarantee rate for eligible loans.

Eligible Loans. Loans under the small business loan guarantee program would be eligible to be guaranteed by the WDRF if all of the following apply:

(a) the loan proceeds are used for direct or related expenses associated with the expansion or acquisition of a business or start-up of a day care, including the purchase or improvement of land, buildings, machinery, equipment or inventory;

(b) loan proceeds are not used for: (1) refinancing existing debt; (2) entertainment expenses; (3) expenses related to the production of an agricultural commodity; or (4) expenses related to a community based residential facility;

(c) the loan term may not extend beyond 15 years after the date on which the lender disburses the loan unless WHEDA agrees to an extension of the loan term;

(d) the total principal amount of guaranteed loans to any one borrower could not exceed \$750,000;

(e) the lender obtains a security interest in the physical plant, equipment, machinery or other assets;

(f) the lender believes it is likely that the borrower will be able to repay the loan in full with interest;

(g) the lender agrees to the guarantee percentage established for the loan by WHEDA; and

(h) WHEDA believes the loan will have a positive impact in terms of job creation or retention.

Eligible Borrowers. To be eligible for a loan guarantee, the borrower must be unable to obtain adequate financing on reasonable terms and be: (a) the elected governing body of a federally recognized American Indian tribe or band in this state; or (b) a business owner that is actively engaged in the business (primarily an in-state business or those committed to locating in the state), employs 50 or fewer employees and is not delinquent in the payment of child support.

DISCUSSION POINTS

WDRF Reserve Ratio

1. While the Legislature from time to time appropriates money to the WDRF, the WDRF itself is a separate fund internal to WHEDA that is not considered a part of the state's budget. The state's moral obligation pledge to appropriate any funds necessary to meet the obligations does apply to the WDRF. Further, under current law, WHEDA is required to transfer annually (on June 30) to the state's general fund any balance in the WDRF which remains after deducting amounts sufficient to pay outstanding claims and to fund guarantees under each of the loan guarantee programs backed by the fund. No funding has been transferred to the general fund since this statutory requirement was enacted because the balance in the WDRF has been less than the amounts needed to meet these objectives.

2. WHEDA determines the amount to be transferred to the general fund from the WDRF, after deducting any default payments, and after making the following additional adjustments: (1) administrative expenses for WDRF programs; (2) the cost of interest subsidies under the CROP and tourism loan guarantee programs; and (3) revenues from interest earned on the fund balance and from fees assessed for loan guarantee issuance. The balance of the WDRF has been declining in past years as shown in Table 1.

TABLE 1

**WDRF Year End Balances
(Millions)**

Year	Balance
1991-92	\$19.0
1992-93	17.4
1993-94	15.5
1994-95	15.2
1995-96	14.2
1996-97*	13.0

* Projected

3. If the fund balance continues to decline, the statutorily required reserve ratio would cause a progressive lowering of the actual amount of loans that could be guaranteed by the fund. Adjusting the reserve ratio would extend the useful life of the WDRF based on existing reserves.

That is, if the WDRF balance were to continue to decline, a 4.5 to 1 ratio would allow for a greater amount of outstanding guarantees that could be made on the WDRF balance than would be allowed by a 4 to 1 ratio.

4. By increasing the reserve ratio to 4.5 to 1, or \$4.50 in loan guarantees for every one dollar in the balance of the WDRF, the bill would increase the amount of loans that WHEDA could make. For example, the projected June 30, 1997, balance of \$13.0 million could back \$52.0 million in loan guarantees at a 4 to 1 ratio versus \$58.5 million at a 4.5 to 1 ratio.

5. Conversely, while increasing the reserve ratio to 4.5 to 1 would extend the amount of loans WHEDA could guarantee under its current WDRF balance, a smaller amount of funds would be available to the WDRF to cover loans defaults. Consequently, the likelihood that the Legislature would be asked to appropriate additional funds to the WDRF in the event of a major economic downturn or other conditions that result in extraordinary default rates could increase if the reserve ratio were increased.

Repealed Programs

6. WHEDA is typically authorized to guarantee up to 90% of total loans or approximately \$25.4 million for these programs (\$22.9 million of the \$25.4 million in loans could be guaranteed as shown in Table 2), although several programs have not guaranteed any loans.

7. Further, existing loans made under programs recommended for repeal would continue to be backed by the WDRF. In addition, the WDRF would continue to back other programs where no new guarantees are being made: (a) the cultural and architectural landmark loan guarantee program which has obligated all of its \$7.2 million in guarantee authority for the Taliesin project (90% of the \$8 million Taliesin loan); and (b) the recycling loan guarantee program under which no new loans can be guaranteed after December 3, 1993.

Therefore, WHEDA's available guarantee authority would be reduced by the amount of outstanding loans guaranteed under the programs recommended for repeal or an estimated \$16.6 million (including the Taliesin guaranteed loan and the recycling loan guarantee program). Table 2 lists the current guarantee amounts of loans made under the programs that would be repealed in order to create the small business development loan program as well as the guarantee amounts under the Taliesin and recycling loan guarantee programs.

TABLE 2

Guarantee Authority of WHEDA Loan Guarantee Programs

	Maximum Guarantee <u>Authority</u>	Guarantee <u>Amounts</u>
SB 77 Repealed Programs		
Targeted Development Loans	\$10,000,000	\$5,558,400
Tourism Loans	8,000,000	3,693,800
Contract Loans	2,000,000	0
Clean Air Loans	900,000	0
Non-point Source Pollution Loans	850,000	4,500
Agrichemical Cleanup Loans	650,000	0
Stratospheric Ozone Protection Loans	<u>500,000</u>	<u>0</u>
Subtotal	\$22,900,000	\$9,256,700
Other Programs		
Taliesin	\$7,200,000	\$7,200,000
Recycling	<u>0*</u>	<u>138,400</u>
Subtotal	\$7,200,000	\$7,338,400
Grand Total	\$30,100,000	\$16,595,100

*The recycling loan program expired on December 3, 1993.

8. The estimated balance in the WDRF on June 30, 1997, is \$13.0 million which means WHEDA could guarantee up to \$58.5 million in loans (at a 4.5 to 1 ratio) under its various programs. However, approximately \$16.6 million of the authority would be needed to back loans under the programs repealed under the bill. Therefore, as shown in Table 3, approximately \$41.9 million in total guarantees could be made in 1997-98 under the bill, although remaining guarantee authority would total \$60.75 million (\$28.75 million associated with the proposed program and \$32.0 million in existing program authority).

9. The bill would exclude agricultural loans from the small business loan guarantee program, however, the remaining WHEDA loan guarantee programs would involve agricultural financing: (a) \$27.0 million in guarantee authority for the combined loans under the CROP program and the farm asset reinvestment program (FARM), which provides loans for acquisition of agricultural assets (machinery, equipment, land); and (b) \$5.0 million in guarantee authority associated with the agribusiness loan program which makes loans to businesses involved in the development of viable methods of marketing or processing raw agricultural commodities in Wisconsin.

10. Because only \$41.9 million in available guarantee authority would remain under the bill, the level of activity in one program could begin to constrict the level of activity in another program. Therefore, WHEDA would have to determine which programs would receive priority for the remaining guarantee authority available given the WDRF balance. For example, the CROP program has been a popular program to date with annual loan guarantees of \$20.0 to 27.0 million per year. However, if the small business loan guarantee program were to become popular it could begin to use much of the remaining guarantee authority, which would limit the amount of loans guaranteed under the CROP program. That is, the programs would have to compete for the \$41.9 million in guarantee authority available to be backed by the WDRF.

11. CROP/FARM and agribusiness loan programs can guarantee approximately \$32.0 million in loans. In order to ensure that the small business development program does not constrict the amount of guarantees that could be made under the CROP/FARM program and the agribusiness loan program, the Committee could limit the guarantee authority under the new program to the amount of available reserves in the WDRF. WHEDA could request additional guarantee authority through legislation or from the Joint Finance Committee if the condition of the WDRF improves. Therefore, in the event the WDRF balance would increase (for example as loans from the repealed programs backed by the WDRF are repaid), WHEDA could seek additional guarantee authority.

12. While the default rates for the recycling loan guarantee program have been approximately 11%, the default rates for other WHEDA loan guarantee programs have ranged between less than 1% and 5%. It could be argued that the 4.5 to 1 ratio proposed in the bill would continue to provide a conservative estimate of the reserves necessary to back WHEDA's loan guarantees. A reserve ratio of 5 to 1 would allow sufficient reserves to cover guarantees and allow additional loans to be guaranteed under the small business loan guarantee program while ensuring the CROP/FARM and agribusiness loan programs would have full guarantee authority available. The following table lists the level of guarantees WHEDA could make based on various reserve ratios.

TABLE 3**Projected Loan Activity Under
Various Reserve Ratios**

	Ratio		
	<u>4:1</u>	<u>4.5:1 (SB 77)</u>	<u>5:1</u>
Guarantee Authority (\$13.3 million WDRF Balance)	\$52,000,000	\$58,500,000	\$65,000,000
Outstanding Guarantees on Repealed Programs	-16,595,000	-16,595,000	-16,595,000
Balance Available for Future Guarantees	\$35,405,000	\$41,905,000	\$48,405,000
Less:			
CROP/FARM Authority	-27,000,000	-27,000,000	-27,000,000
Agribusiness Authority	-5,000,000	-5,000,000	-5,000,000
Allowable Small Business Development Loan Guarantee Authority	\$3,405,000	\$9,909,000	\$16,405,000

Policy Concerns

13. A similar bill, 1995 Senate Bill 628, which would have created a small business loan guarantee program and establish a 5 to 1 reserve ratio, passed each house of the Legislature but in slightly different form during the 1995-97 session.

14. WHEDA would no longer be authorized to guarantee loans for the specific purposes currently delineated under each program. Further, the bill deletes the tourism loan program and associated interest subsidies of up to 3.5% of outstanding loan balances.

15. While the bill does not specify that borrowers currently eligible for the guarantee programs repealed in the bill would continue to be eligible for guarantees under the small business loan guarantee program, such borrowers could be eligible if the loan met the new program's requirements.

16. WHEDA's primary mission is to: (a) provide financing for affordable housing for low- and moderate-income people; and (b) for business development. As a result, WHEDA's expertise related to providing financing for businesses to meet environmental concerns is limited. Further, WHEDA officials indicate that programs aimed at specific environmental concerns that require specialized technical expertise are difficult to market in that WHEDA has to educate the state's financial community about the availability and requirements of the programs. Therefore, other than the expired recycling loan guarantee program, many of WHEDA's environmental guarantee programs have gone unused.

17. However, the tourism and the targeted loan guarantee program are more in line with WHEDA's mission related to business and economic development. Further, as indicated by the current level of guarantees shown in Table 2, the programs have been popular in the past. However, users of these programs would likely be able to meet the criteria and obtain loans under the proposed small business guarantee program. Further, retaining the programs would increase WHEDA's total outstanding guarantee authority.

18. Consolidating WHEDA's loan guarantee programs would streamline the agency's administrative and marketing functions and result in reduced administrative charges to the WDRF. Currently, WHEDA incurs expenses in developing rules and procedures with each guarantee program and in marketing the individual programs. Further, eliminating the tourism loan program would reduce the interest subsidy costs to the fund.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to: (a) increase the reserve ratio to require that one dollar in the cash balance for every \$4.50 in total outstanding guarantees for all guarantee programs backed by the fund, except the loan to Taliesin, which would remain at a 4 to 1 ratio; (b) repeal the contract, tourism, agrichemical cleanup, targeted development, nonpoint source pollution abatement, clean air and stratospheric ozone protection loan guarantee programs; and (c) create a small business development loan guarantee program, with guarantee authority of \$28,750,000.

2. Approve the Governor's recommendation except: (a) maintain the reserve ratio of 4 to 1; and (b) provide \$3.4 million in guarantee authority for the small business loan guarantee program.

3. Approve the Governor's recommendation except provide \$9.9 million in guarantee authority for the small business loan guarantee program (reserve ratio would be 4.5 to 1).

4. Approve the Governor's recommendation except: (a) create a 5 to 1 reserve ratio; and (b) provide \$16.4 million in guarantee authority for the small business loan guarantee program.

5. Maintain current law.

Prepared by: Al Runde

MO#

114

2 BURKE	(Y)	N	A
1 DECKER	(Y)	N	A
GEORGE	(Y)	N	A
JAUCH	(Y)	N	A
WINEKE	(Y)	N	A
SHIBILSKI	(Y)	N	A
COWLES	Y	(N)	A
PANZER	Y	(N)	A
JENSEN	Y	(N)	A
OURADA	Y	(N)	A
HARSDORF	Y	(N)	A
ALBERS	Y	(N)	A
GARD	Y	(N)	A
KAUFERT	Y	(N)	A
LINTON	(Y)	N	A
COGGS	(Y)	N	A

AYE

8

NO

8

ABS

0

MO#

Alt 3

BURKE	(Y)	N	A
DECKER	(Y)	N	A
GEORGE	(Y)	N	A
JAUCH	(Y)	N	A
WINEKE	(Y)	N	A
SHIBILSKI	(Y)	N	A
COWLES	(Y)	N	A
PANZER	(Y)	N	A
1 JENSEN	(Y)	N	A
2 OURADA	(Y)	N	A
HARSDORF	(Y)	N	A
ALBERS	(Y)	N	A
GARD	(Y)	N	A
KAUFERT	(Y)	N	A
LINTON	(Y)	N	A
COGGS	(Y)	N	A

AYE

16

NO

0

ABS

0

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

LFB Summary Items for Which No Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
3	Beginning Farmer Loan Program
4	Job Training Reserve Fund
7	Wisconsin Development Reserve Fund (except reserve ratio)
8	Sports and Entertainment Stadiums
9	Economic Development Loans

LFB Summary Item to be Addressed in a Subsequent Paper

<u>Item #</u>	<u>Title</u>
1	Brownfields Redevelopment Loan Guarantee Program

LFB Summary Items for Introduction as Separate Legislation

<u>Item #</u>	<u>Title</u>
6	Repeal Loan Guarantee Programs
10	Memorandum of Understanding
11	Economic Development Reports

Wisconsin Technical College System

(LFB Budget Summary Document: Page 621)

LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
2	General Aids for Technical College Districts (Paper #945)
3	Faculty Development Grants (Paper #946)
8	Contracts for Youth Apprenticeship Instruction (Paper #947)
-	Minor Policy and Technical Changes -- Position Authority (Paper #948)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

General Aids for Technical College Districts (WTCS)

[LFB Summary: Page 657, #2]

CURRENT LAW

In 1996-97, \$110,199,200 GPR is provided for state general aids for technical college districts. The funds are distributed through a formula which takes into account each of the 16 district's costs, FTE students and equalized property valuation.

GOVERNOR

Increase state general aids for technical college districts to \$111,301,200 GPR in 1997-98 and \$112,414,200 GPR in 1998-99. The additional funding of \$1,102,000 in 1997-98 and \$2,215,000 in 1998-99 would represent annual increases of 1.0%.

DISCUSSION POINTS

1. The following table shows the amounts appropriated for general aids to WTCS districts and the ratio of general aid to aidable costs since 1990-91. Aidable costs represent expenditures, including debt service, associated with providing postsecondary, vocational-adult and college parallel programs which are funded by property tax and state general aids.

<u>Year</u>	<u>General Aid</u>	<u>% Change</u>	<u>Aidable Cost</u>	<u>% Change</u>	<u>Ratio of Aid to Cost</u>	<u>Change in CPI**</u>
1990-91	\$92,534,500	--	\$319,076,800	--	29.0%	5.4%
1991-92	96,034,500	3.8%	336,660,200	5.5%	28.5	4.2
1992-93	99,034,500	3.1	357,849,100	6.3	27.7	3.0
1993-94	104,454,200	5.5	376,344,800	5.2	27.8	3.0
1994-95	110,199,200	5.5	403,685,400	7.3	27.3	2.6
1995-96	110,199,200	0.0	432,274,500	7.1	25.5	2.8
1996-97*	110,199,200	0.0	457,303,800	5.8	24.1	3.0

*Based on April 1997 estimates.

**Consumer Price Index changes for calendar years 1990 through 1996.

2. As the table indicates, the state's share of district aidable cost has declined from 29% to an estimated 24.1% in 1996-97. However, the increase in aidable costs has exceeded the rate of inflation, as measured by the Consumer Price Index, in each year during this period.

3. In its agency budget request, the State Board requested increases in general aids of \$4,959,000 in 1997-98 and \$10,141,100 in 1998-99, which would represent increases of 4.5% annually. The Board indicated that this level of funding would be required to maintain the current level of programming and stability in property tax levies.

During public hearings on the budget, representatives of the Technical College System have indicated a desire for a 2.5% increase in general aid in each year if the original 4.5% request is not funded.

4. The Board indicates that one of the factors contributing to its request is the cost increase in WTCS employee contract settlements, which range from 3% to 5.75% in 1996-97. The Board also cites, as a reason for increased district costs, greater numbers of students with disabilities and expanded programs and services in the areas of school-to-work, distance education and other educational technology activities such as the implementation of electronic applications for admission. However, statewide FTE enrollment in 1995-96 declined by 9.4% since its peak in 1992-93.

5. In the 1995-97 biennium, no increases were provided for general aids or categorical aids to WTCS districts. However, total WTCS revenues increased by 3.7% in 1995-96 and an estimated 4.8% in 1996-97, largely due to property tax revenue increases of 6.7% and 5.8%, respectively.

6. Under current law, WTCS district levies for all purposes except debt service cannot exceed 1.5 mills. For districts at the mill limit, increases in revenue are essentially limited to increases in their equalized property values, and thus it is argued that particularly for these districts, there is a greater need for state aid. This issue, however, was a greater concern in the early 1990s, when more than half of the districts were at the mill limit. In 1996-97, only

four districts are at the mill limit. Rapid growth in equalized property valuations in recent years has allowed most districts to increase their property tax revenues while remaining at or below the limit. In 1996, the statewide average increase in property valuations was 7.6%, ranging from 3.4% at Milwaukee to 15.3% at Nicolet.

7. Due to changes in district aidable costs and equalized valuations per FTE, increases in general aids are not distributed uniformly to all districts. Current projections for 1997-98 indicate that the estimated percentage change in general aid for individual districts would range from -2.9% to 6.4%. Of the three districts which show a decline in general aid in 1997-98, one (Milwaukee) is currently at the 1.5 mill limit. However, these estimates are based on projections of district property valuations, costs and FTEs and should be considered speculative; actual payments may differ significantly from such preliminary estimates.

8. The focus of the state's property tax relief efforts in recent years has centered on elementary and secondary school aids. The state's other major local aid programs have been frozen while the Governor and Legislature have appropriated funds to reach the 66.7% K-12 commitment.

Specifically, no increase has been provided since 1995 for the following programs: shared revenue, expenditure restraint, county mandate relief and payments for municipal services. No increase in these programs is recommended in SB 77 for 1997-99. The small municipalities shared revenue program (SCIP) was funded at \$14 million in 1995 and reduced to \$10 million in 1996. It would stay at that level for the next two years under SB 77. In addition, transportation aids for 1998 and 1999 would, under SB 77, remain at their 1997 level. To provide a comparable 1% annual increase for these programs would require approximately \$10.6 million GPR and \$5.9 million SEG in the 1997-99 biennium. Finally, biennial funding for community aids under the Governor's bill is \$15.5 million less than the current base funding.

Given the fact that these other major local aid programs are, at best, frozen under the Governor's bill, one could question the provision of a \$3.3 million increase for Technical College districts.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide an additional \$1,102,000 GPR in 1997-98 and \$2,215,000 GPR in 1998-99 (an increase of 1% annually) for state general aids to WTCS districts.

2. Increase general aids to WTCS districts by one of the following percentages.

% Increase	Funding Amount Calculated as a Change to Base			Funding Amount Calculated as a Change to Governor		
	1997-98	1998-99	Total	1997-98	1998-99	Total
0.5%	\$551,000	\$1,104,800	\$1,655,800	-\$551,000	-\$1,110,200	-\$1,661,200
<i>Ourada</i> 1.5%	1,653,000	3,330,800	4,983,800	551,000	1,115,800	1,666,800
2.0	2,204,000	4,452,100	6,656,100	1,102,000	2,237,100	3,339,100
2.5	2,755,000	5,578,900	8,333,900	1,653,000	3,363,900	5,016,900
3.0	3,306,000	6,711,200	10,017,200	2,204,000	4,496,200	6,700,200
3.5	3,857,000	7,849,000	11,706,000	2,755,000	5,634,000	8,389,000
4.0	4,408,000	8,992,300	13,400,300	3,306,000	6,777,300	10,083,300
4.5	4,959,000	10,141,100	15,100,100	3,857,000	7,926,100	11,783,100

3. Provide a 1% increase only in 1997-98, by reducing funding in the bill by \$1,113,000 GPR in 1998-99.

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- \$1,113,000

4. Delay providing a 1% increase until the second year of the biennium, by reducing funding in the bill by \$1,102,000 GPR in 1997-98 and \$1,113,000 GPR in 1998-99. which would provide an increase to the base of \$1,102,000 GPR in 1998-99.

Alternative 4	GPR
1997-99 FUNDING (Change to Bill)	- \$2,215,000

5. Delete the Governor's recommendation.

Alternative 5	GPR
1997-99 FUNDING (Change to Bill)	- \$3,317,000

MO# *Alt 2 (1.5%)*
(.5% over gov's rec.)

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
2 SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
1 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

Prepared by: Merry Larsen

AYE 9 NO 5 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Faculty Development Grants (WTCS)

[LFB Summary: Page 658, #3]

CURRENT LAW

No provision.

GOVERNOR

Provide \$832,000 GPR annually in a new, annual appropriation for grants to be awarded by the WTCS Board to district boards to establish faculty development programs. Require that such faculty development programs promote: (a) instructor awareness of, and expertise in, a wide variety of newly emerging technologies; (b) the integration of learning technologies in curriculum and instruction; and (c) the use of instructional methods that involve emerging technologies. Require the WTCS Board to promulgate rules to implement and administer the grants, including rules establishing criteria for awarding the grants. Provide that expenditures of grant amounts under this provision would not be included in the technical college district's aidable costs for the purposes of calculating state aid payments to the technical college district.

DISCUSSION POINTS

1. Currently, the only state-funded faculty development program for WTCS instructors is the instructor occupational competency grant program, under which grants are provided to WTCS districts to pay the salaries of instructors who update their skills through temporary work experiences in business in their field of instruction. A 50% local match is

required. In 1996-97, \$71,300 GPR is budgeted for the program which serves approximately 90 instructors annually. The program is intended to improve an instructor's knowledge of, and skills in current industry practices and does not focus on instructional technology.

2. The faculty development grants proposed in the bill were included in the WTCS Board's 1997-99 budget request. According to WTCS staff, each of the 16 WTCS districts would receive a grant to partially fund the establishment of a teaching innovation center. Staff at the centers would formulate and implement faculty development activities in the three "core" areas required in the bill:

- *Instructor awareness of, and expertise in, newly emerging technologies.* The centers would offer workshops, either at the campus or district level and/or through videocourses and the Internet, to familiarize instructors with the use of technologies such as teleconferencing, the Internet, multimedia and hypertext courseware, videocourse production and computer-based curriculum development, instruction and assessment.

- *Integration of learning technologies in curriculum and instruction.* Staff at the centers would assist instructors in using technology to design and develop curricula and course materials and for course delivery.

- *Use of instructional methods that involve emerging technologies.* WTCS students have varying experience with the use of technology when they enroll in technical college courses. The centers would provide workshops or on-line courses or videocourses to assist instructors in acquainting students with telecommunications technologies such as e-mail, the Internet and computer-aided instruction. Instructors would also receive assistance in selecting instructional delivery methods appropriate to the learning styles of their students and using remote assessment techniques for students taught through distance education or other nontraditional means.

3. The bill does not specify whether the grants would be distributed to the districts on a competitive or noncompetitive basis. However, WTCS Board staff indicate that each district would receive an equal "base allocation" of approximately \$30,000 to \$40,000 per district to ensure that a minimum level of services are provided at each teaching innovation center. It is anticipated that most districts would use these funds to hire a director or coordinator for their center. Districts could request additional funding to cover costs associated with serving a greater than average number of faculty members or for special projects which could be shared among districts.

4. In 1995-96, WTCS districts spent over \$27 million on computer technology and distance education systems. While all districts provide some activities for faculty improvement in the use of technology, these activities vary among districts and data on expenditures for these purposes is not available. Of the 16 districts, 14 have technology labs at which faculty can receive assistance in such areas as using hardware and software and learning to use distance education equipment.

5. Three WTCS districts (Waukesha, Fox Valley and Milwaukee) currently operate teaching innovation centers similar to those which would be established under the bill. Of the three, Waukesha's center is the most advanced and therefore, would be used as a model for centers in the other districts. Waukesha's center, which is open 37 hours per week, has had 600 visits by faculty and staff and has offered more than 30 workshops since it opened in August of 1996. Staffing for the center consists of a full-time director, two 0.25 FTE faculty members, and three non-teaching faculty who each spend approximately four hours per week at the center. For 1996-97, the total expenditures are estimated at \$174,600. This includes \$132,400 in staff costs for the salary of the director and release time for faculty, and \$42,200 for equipment and operating expenses. The faculty union has contributed approximately \$4,000 with the remainder of the funds provided by the district.

6. The WTCS Board staff indicate that districts need to intensify their efforts in the area of faculty technology training due to increasing demand by employers for employees with knowledge of telecommunications and other types of technologies. In addition, staff believe that the integration of technology into the curriculum as well as its use in communications and course delivery, can improve student learning.

7. Unlike K-12 teachers, most WTCS faculty come from business and industry, rather than schools of education. As such, most WTCS faculty development activities focus on improving teaching skills in general rather than on instructional technology. While the grants are not intended to cover the entire cost of establishing a center, the Board argues that the proposed program would provide an incentive to districts to increase their efforts in technology training and would serve to somewhat equalize the level of services available to faculty statewide, and in turn the quality of education provided to students.

8. One could argue that if the purpose of the grants is to ensure a certain level of programming across districts, the flat grant approach proposed by the Board would be disequalizing since all districts would receive the same amount regardless of their ability to generate revenues from other sources. Further, the districts which are already providing the base level of services desired by the Board would receive the same amount as districts which currently have no specific program for technology training. WTCS staff indicate that while districts in which centers already exist could use a portion of their grant to improve or increase the services they offer, these districts would also be expected to assist other districts in establishing centers.

9. In the past, the WTCS Board has held that faculty development is primarily the responsibility of local districts. Given this view, one could argue that if the districts consider faculty knowledge and use of technology to be a priority, they could allocate state general aids or local revenues to expand activities in this area.

10. Under the bill, the additional funding for the grants would be included in the agency's base budget in the 1999-01 biennium. However, the Committee could provide funding

only to cover start-up costs associated with the establishment of the centers and sunset the appropriation at the end of the 1997-99 biennium, after which the centers would be supported with district funds and general state aids. A less costly option for start-up funding would be to provide \$50,000 per district, for a total of \$800,000 GPR, only in 1997-98.

11. Although no local matching funds would be required under the bill, WTCS has stated that each district would be required to provide matching funds of at least 25% of the grant amount. District contributions, which are expected to exceed 25%, are likely to be in the form of equipment purchases and release time for instructors to help staff the centers and to participate in workshops and other activities conducted by the centers. Since WTCS already intends to require a local match, the Committee could consider a statutory requirement that each district provide matching funds equal to at least 50% of the grant amount, which would be identical to the matching requirement under the current instructor occupational competency grant program.

12. In the WTCS budget request, the Board indicates that after the end of the 1998-99 fiscal year, districts would be required to report to the Board on the results of the activities funded through the grants. It may be reasonable to require that, during the next budget process, the WTCS Board submit a report to the Legislature on the activities in each district funded by the grants and the centers' effectiveness at meeting the statutory purposes of the funding.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$832,000 GPR annually in a new, annual appropriation for grants to WTCS districts for the establishment of faculty development programs.

2. Modify the Governor's recommendation by one, or more, of the following:

a. Specify that a district which receives a grant would be required to provide local matching funds equal to at least 50% of the grant amount.

b. Provide that the grant program and appropriation would sunset on June 30, 1999.

c. Require that the WTCS Board submit a report by March 1, 1999, to the Legislature on the activities in each district funded by the grants and the teaching innovation centers' effectiveness at meeting the statutory purposes of the funding.

3. Delete \$32,000 GPR in 1997-98 and \$832,000 GPR in 1998-99 to provide net funding of \$800,000 in 1997-98 for first year start-up grants.

<u>Alternative 3</u>	<u>GPR</u>
1997-99 FUNDING (Change to Bill)	- \$864,000

4. Delete the Governor's recommendation.

<u>Alternative 4</u>	<u>GPR</u>
1997-99 FUNDING (Change to Bill)	- \$1,664,000

Prepared by: Merry Larsen

MO# 2 a, b, c

1 BURKE	<input checked="" type="radio"/> Y	N	A
DECKER	<input checked="" type="radio"/> Y	N	A
GEORGE	<input checked="" type="radio"/> Y	N	<input checked="" type="radio"/> A
2 JAUCH	<input checked="" type="radio"/> Y	N	A
WINEKE	<input checked="" type="radio"/> Y	<input checked="" type="radio"/> N	A
SHIBILSKI	<input checked="" type="radio"/> Y	<input checked="" type="radio"/> N	A
COWLES	<input checked="" type="radio"/> Y	N	A
PANZER	<input checked="" type="radio"/> Y	N	A
JENSEN	<input checked="" type="radio"/> Y	N	A
OURADA	<input checked="" type="radio"/> Y	N	A
HARSDORF	<input checked="" type="radio"/> Y	N	A
ALBERS	<input checked="" type="radio"/> Y	N	<input checked="" type="radio"/> A
GARD	<input checked="" type="radio"/> Y	N	A
KAUFERT	<input checked="" type="radio"/> Y	N	A
LINTON	<input checked="" type="radio"/> Y	N	A
COGGS	<input checked="" type="radio"/> Y	N	A

AYE 12 NO 2 ABS 2

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Contracts for Youth Apprenticeship Instruction (WTCS)

[LFB Summary: Page 659, #8]

CURRENT LAW

As part of the state's educational standards, school districts are required to provide access to an education for employment program approved by the State Superintendent. Beginning in the 1997-98 school year, the program must incorporate youth apprenticeship programs or other job training and work experience, and instruction in skills relating to employment.

Technical College district boards are permitted to enter into contracts to provide educational services to public and private educational institutions, federal and state agencies, local governmental bodies, industries and businesses.

GOVERNOR

Provide that if a WTCS district board contracts with a school board to provide youth apprenticeship instruction to pupils enrolled in the school district, the district board may not charge the school district an amount greater than the school district's average instructional cost per pupil, as determined by the State Superintendent, for each pupil receiving the instruction. This provision would first apply to contracts entered into, modified or renewed on the effective date of the bill.

DISCUSSION POINTS

1. The youth apprenticeship program provides high school juniors and seniors with the option of enrolling in a two-year program combining academic coursework with on-the-job training in specific occupational areas. Pupils who complete the program receive an occupational proficiency or skills certificate in addition to their high school diploma. As of the fall of 1996, 1,050 pupils were enrolled in youth apprenticeship programs in a total of 14 occupational areas.
2. In 1996-97, 12 WTCS districts provide instruction to 315 of the youth apprentices in the state. Other youth apprentices receive the classroom component of their apprenticeship at their high schools, at other high schools in the district or at the business where they receive on-the-job training. The WTCS districts providing instruction for youth apprentices do so under contract, generally between the WTCS district and the school board of the district of enrollment. However, one WTCS district contracts with the local Chamber of Commerce and another contracts with the cooperative educational service agency, which in turn, charge the school district. The bill provision would not apply to these WTCS contracts with other entities.
3. Pupils participating in youth apprenticeship programs are counted in the school district's membership for state aid purposes. WTCS districts which provide classroom instruction to youth apprentices do not receive any state funds for this purpose and the youth apprentice FTEs are not considered under the formula used to distribute state general aids to WTCS districts.
4. In most cases, separate WTCS courses are developed specifically for youth apprenticeship programs and enrollment in these courses generally consists only of youth apprentices. Because these courses enroll a small number of students, the per pupil cost of providing such instruction can be quite high, since fixed costs, such as the salary and fringe benefits for the instructor, equipment and classroom space, must be distributed over a small number of students. At least two WTCS districts have been able to enroll some youth apprentices in existing courses which has lowered the cost of the instruction.
5. The portion of a WTCS district's costs recovered under the contracts varies. Some districts, such as those which charge an amount based on tuition and fees, subsidize the costs of the instruction with local and/or federal funds. Districts which charge an amount equal to direct instructional costs plus a portion of indirect expenses usually recover the largest percentage of costs. However, the portion of indirect costs charged to school districts varies from 7.5% to 26% of the total contract amount, while indirect costs represent an average of 67% of direct instruction costs.
6. Staff from the Department of Administration indicate that this provision is intended to provide greater uniformity in the costs of the contracts across school districts. In addition, staff from the Department of Workforce Development indicate that some school districts have found the cost of the contracts prohibitively high and are reluctant to spend more on pupils in youth apprenticeship programs than on pupils in regular academic programs. For this reason, it is

argued, enrollments in WTCS courses is low. However, WTCS Board staff indicate that one of the factors contributing to the relatively high per pupil cost is the small number of pupils enrolled in the courses.

7. The following concerns have been raised regarding the use of a school district's average instructional costs as the basis for determining contract amounts for youth apprenticeship instruction:

- A school district's instructional costs have no relationship to the costs incurred by a WTCS district to provide the instruction. For example, many of the youth apprenticeship programs consist of technical training which involves the use of expensive equipment; expenditures associated with providing and maintaining such equipment would not be included in a school district's costs.
- The proposed language does not take into consideration variances in the cost of instruction for different youth apprenticeship occupational areas.
- School district instructional costs are based on an academic year, whereas WTCS courses, including those taken by youth apprentices, are offered on a semester basis.
- While youth apprentices must be in grades 11 or 12, instructional cost data encompasses all grade levels. Since it is generally assumed that the cost of educating an elementary school student is lower than the cost of educating a high school student, the average instructional cost for K-12 grades would be lower than for high school grades alone.

8. The term "average instructional cost" is not defined in the bill. One option would be to use the definition relating to interdistrict payments approved by the Joint Legislative Council Special Committee on Public School Open Enrollment for its draft legislation. Under this alternative, average cost would be defined as the statewide average per pupil school district cost as determined annually by the Department of Public Instruction, for regular instruction, co-curricular activities, instructional support services and pupil support services for the prior school year. In 1995-96, it is estimated that for all of these cost categories together, the statewide average was \$4,203.

9. The proposal would need to be clarified as to whether "pupil" means a headcount or a full-time equivalent count of students. The number of youth apprentices currently enrolled in an individual WTCS course varies from two to 42 and the estimated number of FTE youth apprentices enrolled in an individual course varies from 0.24 to 8.0. WTCS defines 1.0 FTE as a student enrolled for at least 15 credits per semester, or 30 credits per year. Since most youth apprentices attend WTCS courses for only a few hours per week, they do not represent large numbers of FTEs. For example, while 10 youth apprentices are enrolled in courses at Blackhawk Technical College, these students equal only 1.2 FTE student.

10. The effect of the proposal would vary depending on whether a headcount or FTE approach would be taken. While current contract amounts range from \$178 to \$6,150 based on headcounts, these amounts range from \$913 to \$22,969 when calculated on a FTE basis. As an example, 14 youth apprentices are enrolled in an auto technician course at Fox Valley Technical College. The total amount charged to the school district, which is based on direct cost of instruction plus 7.5% for indirect costs, is \$49,452, or \$3,532 per pupil. However, because the 14 pupils equal only 5.97 FTEs, the cost per FTE is \$8,283. Under the bill, assuming that the school district's average instructional cost is approximately \$4,200 per pupil, the amount the WTCS district would be allowed to charge, on a per pupil basis, would be slightly greater than the current charge. However, if the charge to the school district is based on FTEs, the WTCS district would not be permitted to charge more than \$25,074, which is approximately half of the current contract amount.

11. The potential impact of the proposal on the youth apprentice program is unclear. If WTCS districts continue to provide these contractual services, it is possible that school districts would incur lower costs. However, since WTCS districts are not required to provide instruction for youth apprentices, a WTCS district may choose not to enter into a contract if the proposed maximum payment is not sufficient to cover a certain percentage of the WTCS district's costs. In this case, the school district would have to provide the instruction itself or discontinue its youth apprenticeship program, which could result in fewer pupils being able to participate in youth apprenticeships.

12. It is likely that WTCS districts which are prevented from recovering their costs by the proposed provision would have to fund the remaining costs through the property tax or general aids in order to continue to provide youth apprenticeship instruction. One could argue that since youth apprentices are not the primary customers of the technical college system, WTCS districts should not be required to subsidize the cost of instruction for these pupils at the expense of other students and programs.

13. A less restrictive alternative would be to limit the contract amount to the WTCS district's direct instructional costs associated with providing the instruction; WTCS districts would be prohibited from recovering indirect costs.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation by adopting one or more of the following:
 - a. Specify that the limit on the amount charged to the school district would be calculated on a per semester, rather than an annual basis.

b. Specify that the limit on the amount charged to a school district would be calculated using the headcount of the youth apprentices receiving instruction.

c. Specify that the limit on the amount charged to a school district would be calculated using the full-time equivalent (FTE) number of the youth apprentices receiving instruction.

d. Specify that the limit on contract costs would be based on the statewide average per pupil school district cost as determined annually by the Department of Public Instruction, for regular instruction, co-curricular activities, instructional support services and pupil support services for the prior school year.

3. Modify the Governor's recommendation by specifying that a WTCS district board may not charge the school district an amount greater than the WTCS district's direct instructional costs associated with providing the youth apprenticeship instruction.

4. Delete the Governor's recommendation.

Prepared by: Merry Larsen

MO#

Alt 3

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 11 NO 4 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Minor Policy and Technical Changes -- Position Authority (WTCS)

GOVERNOR

No Provision.

MODIFICATION TO BILL

Adjust the WTCS Board's position authorization by -3.0 GPR positions and 1.0 FED position annually.

Explanation: The 1995-97 state budget act reduced the Board's budget by \$230,700 GPR in 1995-96 and \$302,300 GPR in 1996-97 and provided that the allocation of these reductions be determined by the agency. In making the required reductions, the Board eliminated 2.0 GPR positions and transferred funding for 2.0 additional positions from 50% GPR/50% FED to 100% FED. While these adjustments were made in the state's position management information system (PMIS), they are not reflected in the budget forms. This modification would align the agency's position authorization with the PMIS.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1998-99 POSITIONS (Change to Bill)	-3.00	1.00	- 2.00

Prepared by: Merry Larsen

MO# modification

1	BURKE	<input checked="" type="radio"/>	N	A
2	DECKER	<input checked="" type="radio"/>	N	A
	GEORGE	<input type="radio"/>	N	<input checked="" type="radio"/>
	JAUCH	<input checked="" type="radio"/>	N	A
	WINEKE	<input checked="" type="radio"/>	N	A
	SHIBILSKI	<input checked="" type="radio"/>	N	A
	COWLES	<input checked="" type="radio"/>	N	A
	PANZER	<input checked="" type="radio"/>	N	A
	JENSEN	<input checked="" type="radio"/>	N	A
	OURADA	<input checked="" type="radio"/>	N	A
	HARSDORF	<input checked="" type="radio"/>	N	A
	ALBERS	<input checked="" type="radio"/>	N	A
	GARD	<input checked="" type="radio"/>	N	A
	KAUFERT	<input checked="" type="radio"/>	N	A
	LINTON	<input checked="" type="radio"/>	N	A
	COGGS	<input checked="" type="radio"/>	N	A

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MO#	NAME	NO	ABS
1510	BURKE	Y	A
	DECKER	Y	A
	GEORGE	Y	A
	JAUCH	Y	A
	WINEKE	Y	A
	SHIBILSKI	Y	A
	COWLES	Y	A
	PANZER	Y	A
	JENSEN	Y	A
	OURADA	Y	A
	HARSDORF	Y	A
	ALBERS	Y	A
	GARD	Y	A
	KAUFERT	Y	A
	LINTON	Y	A
	COGGS	Y	A

WISCONSIN TECHNICAL COLLEGE SYSTEM

LFB Summary Items for Which No Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1	Standard Budget Adjustments
4	Basic Skills Grants
5	Budget Reductions
6	Telecommunications Retraining Reestimate
7	Reestimate Federal Indirect Cost Reimbursements
9	Tuition Charges
10	Carl D. Perkins Vocational and Applied Technology Education Act Funds
13	Educational Approval Board Positions
14	Transfer Educational Approval Board to Higher Educational Aids Board

LFB Summary Item to be Addressed in a Subsequent Paper

<u>Item #</u>	<u>Title</u>
12	School-to-Work Programs

LFB Summary Item for Introduction as Separate Legislation

Item #	Title
11	Technical Preparation Programs